

Montague Area Public Schools

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2008

Montague Area Public Schools

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# Montague Area Public Schools

## Management's Discussion and Analysis

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This section of Montague Area Public School's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2008. It is to be read in conjunction with the district's financial statements which immediately follows.

### **Financial Highlights**

The district's total net assets were \$94,875 at June 30, 2008, which was a decrease from fiscal year 2007 of \$517,563.

During the year, the district's total expenses were \$15,958,541. Of this amount:

- \$544,908 was paid by direct charges (mostly to the Muskegon Area Intermediate School District and other school districts) to the benefiting parties;
- \$2,250,041 was paid by grants from the state and federal governments; and
- The remaining portion was paid through property taxes, state financial aid, investment income and other locally generated revenues.

The district's governmental funds reported total combined fund balance of \$1,372,038, a decrease of \$269,984 from the previous year.

Total governmental fund operating revenues increased 1.3% to \$14,737,589 while the total governmental fund operating expenditures increased by 2.5% to \$15,891,090.

### **Overview of Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the auditors' opinion, the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

The first two statements are district-wide financial statements that provide readers with a broad overview of the district's overall status.

The remaining statements are the fund financial statements that focus on individual parts of the district, reporting the district's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

### **District-Wide Statements**

The district-wide statements report information on the district as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the district's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the district's net assets and how they have changed. Net assets - the difference between the district's assets and liabilities - are one way to measure the district's financial health or position.

- Over time, increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the district, you need to consider additional non-financial factors such as changes in the district's property tax base, student count and the condition of school buildings and other facilities.

In the district-wide financial statements, the district's activities are all governmental activities. Most of the district's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid fund most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the district's funds, focusing on its most significant or "major" funds rather than the district as a whole. Funds are accounting devices the district uses to keep track of specific sources of funding and spending for particular programs.

- Some funds are required by state law and by bond covenants.
- The district establishes other funds to control and manage money for specific purposes. Montague Area Public Schools maintains funds for athletics, food service, debt retirement, capital project, scholarship and agency funds.

The district has two kinds of funds:

- Governmental funds-most of the district's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because long-term information is not generally included in the governmental funds statements, additional information is provided that explains the differences between the district-wide statements and the governmental funds statements.
- Fiduciary funds-the district is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the district cannot use these assets to finance its operations.

# Montague Area Public Schools

## Management's Discussion and Analysis

### Financial Analysis of the District as a Whole

Net assets as of June 30, are shown in Table 1.

**Table 1**  
**Net Assets**

	Governmental activities	
	2008	2007
Current assets	\$ 4,595,105	\$ 4,835,441
Capital assets, net	32,609,681	33,671,316
Other non-current assets	578,394	607,630
Total assets	37,783,180	39,114,387
Current liabilities	4,721,211	4,661,287
Non-current liabilities	32,967,094	33,840,662
Total liabilities	37,688,305	38,501,949
Net assets		
Invested in capital assets, net of related debt	4,541,221	4,468,013
Restricted for nonexpendable permanent funds	42,671	41,971
Unrestricted	(4,489,017)	(3,897,546)
Total Net Assets	\$ 94,875	\$ 612,438

### **Financial Position**

Increases or decreases in the district's net assets indicate whether the financial position of the district is improving or deteriorating, respectively.

Current assets decreased by \$240,336 from the 2007 balance. In addition, capital asset balances decreased by \$1,061,635, due to the net depreciation increase of \$1,137,035 less net asset additions of \$75,400. Other non-current assets decreased by \$29,236.

The district borrowed \$183,100 from the School Bond Loan Fund to assist with its debt service requirements.

# Montague Area Public Schools

## Management's Discussion and Analysis

### Financial Analysis of the District as a Whole - Continued

The impact that the district's revenues and expenses had on overall financial position is shown in Table 2.

**Table 2**  
**Changes in Net Assets**

	Governmental activities	
	2008	2007
Revenues		
Program revenues		
Charges for services	\$ 544,908	\$ 450,784
Operating grants and contributions	2,250,041	2,140,536
General revenues		
Property taxes	4,708,616	4,544,063
Unrestricted grants and contributions	7,733,657	7,867,549
Other	203,756	204,886
Total revenues	15,440,978	15,207,818
Expenses		
Instruction	8,484,960	7,661,174
Supporting services	4,598,428	4,216,733
Community services	570	0
Food service	594,251	580,304
Athletics	354,639	268,534
Interest on long-term debt	1,543,197	1,589,491
Unallocated depreciation and amortization	382,496	1,209,338
Total expenses	15,958,541	15,525,574
Change in net assets	(517,563)	(317,756)
Net assets at beginning of year	612,438	930,194
Net assets at end of year	\$ 94,875	\$ 612,438

### **Change in Net Assets**

- Total expenses of \$15,958,541 exceeded total revenues of \$15,440,978 resulting in a decrease in total net assets of \$517,563.
- Enrollment decreased to a blended student count of 1,462 in 2007-08, a 1.64% decrease from 2006-07.
- The 2008 state foundation of \$10,531,239 was an increase of \$1,512 from 2007. This was due to the increase in the foundation allowance of \$119 per pupil, from \$7,085 to \$7,204. This increase was offset by the decrease in student numbers.
- Program revenues increased \$203,629 due to increases in charges for special education transportation services, state and local funding for special education as well as increases in Title I funding.
- General revenues increased \$29,533 primarily due to an increase in property taxes.

- The increase in expenditures was primarily the result of inflationary increases in wages and benefits. Unallocated depreciation and amortization decreased by \$856,375 due to allocating depreciation to the proper functional areas.

### **Financial Analysis of the District's Funds**

The district's General Fund reported total fund balance of \$986,115 at June 30, 2008. Of this amount, \$946,403 was unreserved and undesignated. This fund balance level represents a decrease of \$227,918 from the prior year. Significant changes affecting fund balance are as follows:

- There was an overall increase in revenues of \$96,566, due to an increase in property taxes, charges for services for special education and Title I, offset by a decrease in state aid.
- Expenditures for instruction, support services and community services increased by \$503,817, due to inflationary increases in wages and corresponding benefits, increased transportation costs, and additional spending on professional development.
- The final principal and interest payments on the copier loan were \$12,769.
- The General Fund transferred out \$200,000 to support the athletics fund.

The district's debt service funds reported a combined fund balance of \$197,811 at June 30, 2008, a decrease of \$7,722.

- There was an increase in property taxes levied for debt service of \$81,493.
- Total debt service payments were \$2,537,955, a 0.5 % decrease from the previous year. Of the amount spent for the year ended June 30, 2008, \$1,225,000 was paid on principal and \$1,312,955 was spent on interest and other charges.
- The district borrowed \$183,100 from the Michigan School Loan Revolving Fund.

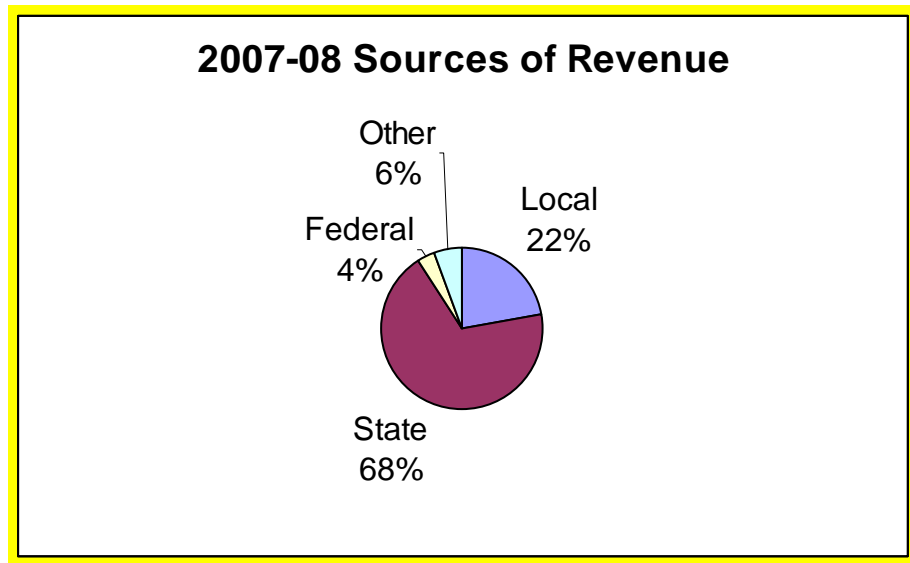
### **General Fund Budgetary Highlights**

District budgets were reviewed on an on-going basis and amended twice during the fiscal year. A schedule showing the district's original and final amended budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements.

The original budget was based on 1,490 students, but the actual count was 1,462. The state foundation increased by \$119 per student which helped to offset the decreased student count. The pupil transportation services budget was increased due to the high cost of diesel fuel. The basic programs budget decreased due to an initial over-budgeting for retirement and insurance costs. The instructional staff budget increased due to the reclassification of certain employees and professional development.

The final budget of the district anticipated that expenditures would exceed revenues by \$688,237. However, actual revenues were \$129,474 higher than expected and actual expenditures were \$330,845 lower than expected, resulting in a decrease in fund balance of \$227,918. The Act 18 revenue was higher than anticipated by about \$144,000. There were no significant variations between final budget and actual expenditures.

The majority of the district's funding is received from state sources. The financial stability of the district is dependent on the economic health of the State of Michigan. The following chart outlines the revenue by source.



### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2008, the district had invested over \$32.6 million in net capital assets, including land, school buildings, school buses, athletic facilities, furniture, computer and audiovisual equipment and the transportation facility as shown below in Table 3. The district purchased a new bus, passenger van and office equipment. Total accumulated depreciation expense charged to the district was \$16.1 million.

**Table 3**  
**Summary of Capital Assets**

	Governmental Activities	
	2008	2007
Land	\$ 722,563	\$ 722,563
Buildings and improvements	29,859,153	30,622,273
Equipment and furniture	1,788,068	2,131,966
School buses and vehicles	239,897	194,514
Total	\$ 32,609,681	\$ 33,671,316

More detailed information about capital assets can be found in notes A and D of these financial statements.

### Long-Term Obligations

At June 30, 2008, the district had over \$34.2 in general obligation bonds and other long-term obligations outstanding as shown below in Table 4.

**Table 4**  
**Summary of Indebtedness**

	Governmental Activities	
	2008	2007
Balance of 2001 school building and site and refunding bonds	\$ 6,265,000	\$ 7,140,000
Balance of 2005 refunding bonds, net	8,580,569	8,918,138
Balance of 2006 refunding bonds, net	8,767,041	8,748,585
Balance of 2007 refunding bonds, net	4,845,214	4,853,541
Balance of school bond loan fund and school loan revolving fund	5,055,093	4,660,097
Balance of 1998 Durant non-plaintiff bonds	104,504	104,504
Installment loan	0	12,388
Educational interconnection and Consortium Financing Agreement	63,465	76,158
Compensated absences	552,690	558,243
Total	\$ 34,233,576	\$ 35,072,654

More detailed information about the district's long-term obligations can be found in notes A and H of these financial statements.

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the district was aware of the following circumstances that could significantly affect its financial health in the future:

- Health insurance costs for teachers increased 3% for 2008-09.
- The district's contribution to the school employee's retirement system decreased from 16.72% in 2007-08 to 16.54% in 2008-09.
- The teacher's contract and the hourly employee's contracts are in effect until 2010.
- The 2008-09 foundation increased by \$112 per student.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional information, contact David L. Sipka, Superintendent, or Pamela Wernstrom, Director of Business Affairs, Montague Area Public Schools, 4882 Stanton Blvd., Montague, MI 49437, telephone number (231) 893-1515.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 2, 2008

Board of Education  
Montague Area Public Schools  
Montague, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools (School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montague Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Montague Area Public Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2008, on our consideration of Montague Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Montague Area Public Schools  
**STATEMENT OF NET ASSETS**  
June 30, 2008

	Governmental activities
ASSETS	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 729,573
Investments	1,614,056
Receivables	178,291
Due from other governmental units	2,026,284
Prepays	5,250
Inventories	41,651
Total current assets	4,595,105
<b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	722,563
Depreciable	31,887,118
Bond issuance costs, net	452,829
Note and interest receivable	125,565
Total noncurrent assets	33,188,075
Total assets	37,783,180
LIABILITIES AND NET ASSETS	
<b>CURRENT LIABILITIES</b>	
State aid loan	1,219,000
Accounts payable and accrued liabilities	1,730,618
Due to other governmental units	276,402
Deferred revenue	207,648
Bonds and other obligations, due within one year	1,287,543
Total current liabilities	4,721,211
<b>NONCURRENT LIABILITIES</b>	
Bonds and other obligations, less amounts due within one year	32,946,033
Accrued interest	21,061
Total noncurrent liabilities	32,967,094
Total liabilities	37,688,305
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	4,541,221
Restricted for nonexpendable permanent funds	42,671
Unrestricted	(4,489,017)
Total net assets	\$ 94,875

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

<i><b>Functions/Programs</b></i>	<u>Expenses</u>	<u>Program Revenue</u>		Net (Expense)
		<u>Charges for</u>	<u>Operating grants</u>	Revenue and
		<u>services</u>	<u>and contributions</u>	Changes in
				Net Assets
				<u>Governmental</u>
				<u>activities</u>
Governmental activities				
Instruction	\$ 8,484,960	\$ 16,027	\$ 1,371,093	\$ (7,097,840)
Support services	4,598,428	213,335	509,546	(3,875,547)
Community services	570	-	-	(570)
Food services	594,251	237,698	358,452	1,899
Athletics	354,639	77,848	7,978	(268,813)
Interest on long-term debt	1,543,197	-	2,972	(1,540,225)
Unallocated depreciation and amortization	382,496	-	-	(382,496)
Total governmental activities	<u>\$ 15,958,541</u>	<u>\$ 544,908</u>	<u>\$ 2,250,041</u>	(13,163,592)
General revenues				
Property taxes levied for				
General purposes				2,397,440
Debt service				2,311,176
Grants and contributions not restricted to specific programs				7,733,657
Investment earnings				117,776
Miscellaneous				84,535
Gain on sale of capital asset				1,445
Total general revenues				<u>12,646,029</u>
Change in net assets				(517,563)
Net assets at July 1, 2007				<u>612,438</u>
Net assets at June 30, 2008				<u>\$ 94,875</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools

**BALANCE SHEET**

Governmental Funds

June 30, 2008

	General Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 379,269	\$ 350,304	\$ 729,573
Investments	1,614,056	-	1,614,056
Receivables	178,291	-	178,291
Due from other governmental units	2,022,424	3,860	2,026,284
Due from other funds	17,990	44,328	62,318
Prepays	5,250	-	5,250
Inventories	34,462	7,189	41,651
Total assets	<u>\$ 4,251,742</u>	<u>\$ 405,681</u>	<u>\$ 4,657,423</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
State aid loan	\$ 1,219,000	\$ -	\$ 1,219,000
Accounts payable	202,134	-	202,134
Accrued liabilities	1,317,883	-	1,317,883
Due to other governmental units	276,402	-	276,402
Due to other funds	44,328	17,990	62,318
Deferred revenue	205,880	1,768	207,648
Total liabilities	3,265,627	19,758	3,285,385
Fund balances			
Reserved			
Prepays	5,250	-	5,250
Inventories	34,462	7,189	41,651
Debt service	-	197,811	197,811
Permanent funds	-	42,671	42,671
Unreserved			
Undesignated			
General Fund	946,403	-	946,403
School service	-	138,252	138,252
Total fund balances	<u>986,115</u>	<u>385,923</u>	<u>1,372,038</u>
Total liabilities and fund balances	<u>\$ 4,251,742</u>	<u>\$ 405,681</u>	<u>\$ 4,657,423</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
June 30, 2008

Total fund balance—governmental funds	\$	1,372,038
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 48,733,771	
Accumulated depreciation	<u>(16,124,090)</u>	32,609,681

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	584,083	
Accumulated amortization	<u>(131,254)</u>	452,829

Other long-term note and interest receivable in governmental activities is not reported in the  
governmental funds.

125,565

Accrued interest in governmental activities is not reported in the governmental funds.

(231,662)

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and notes payable	(33,680,886)	
Compensated absences	<u>(552,690)</u>	<u>(34,233,576)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 94,875

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2008

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Local sources			
Property taxes	\$ 2,397,447	\$ 2,311,176	\$ 4,708,623
Investment earnings	76,028	41,748	117,776
Fees and charges	199,790	318,392	518,182
Other	84,528	6,993	91,521
Total local sources	<u>2,757,793</u>	<u>2,678,309</u>	<u>5,436,102</u>
State sources	8,497,047	41,397	8,538,444
Federal sources	445,988	317,055	763,043
Total revenues	<u>11,700,828</u>	<u>3,036,761</u>	<u>14,737,589</u>
EXPENDITURES			
Instruction	7,927,564	-	7,927,564
Support services	4,496,089	-	4,496,089
Community services	570	-	570
Food services	-	576,489	576,489
Athletics	-	288,035	288,035
Permanent	-	2,800	2,800
Debt service			
Principal	-	1,225,000	1,225,000
Interest and other charges	-	1,312,955	1,312,955
Capital projects	-	61,588	61,588
Total expenditures	<u>12,424,223</u>	<u>3,466,867</u>	<u>15,891,090</u>
Excess (deficiency) of revenues over (under) expenditures	(723,395)	(430,106)	(1,153,501)
OTHER FINANCING SOURCES (USES)			
Transfers from other governmental units			
and other transactions	700,417	-	700,417
Loan proceeds	-	183,100	183,100
Transfers in	-	204,940	204,940
Transfers out	(204,940)	-	(204,940)
Total other financing sources (uses)	<u>495,477</u>	<u>388,040</u>	<u>883,517</u>
Net change in fund balances	(227,918)	(42,066)	(269,984)
Fund balances at July 1, 2007	<u>1,214,033</u>	<u>427,989</u>	<u>1,642,022</u>
Fund balances at June 30, 2008	<u>\$ 986,115</u>	<u>\$ 385,923</u>	<u>\$ 1,372,038</u>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	(269,984)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,218,458)	
Capital outlay	<u>124,615</u>	(1,093,843)

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		2,972
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.		(394,996)
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Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,227,521
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Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		4,214
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		<u>6,553</u>
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Change in net assets of governmental activities	\$	<u><u>(517,563)</u></u>
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The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2008

	Agency funds
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 114,090
	<hr/> <hr/>
LIABILITIES	
Deposits held for others	\$ 114,090
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Montague Area Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental fund:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *2001 Capital Projects Fund* accounts for the use of the proceeds from the 2001 School Building and Site bonds. The bonds were approved for issuance on September 22, 2001 and may be used for school building and site purposes.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *permanent fund* is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies***

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are August 31 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation.

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service funds - Homestead and non-homestead	7.27

**Inventories**

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Vehicles, furniture and equipment	5-30 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Finance Committee submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Director of Financial Affairs is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

The School District did not have significant expenditure variances.

**School Bond Construction Compliance**

The 2001 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's school code.

Following is a summary of the revenue and expenditures in the 2001 Capital Projects Fund from the inception of the fund through June 30, 2008.

	<u>2001 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 18,886,219
Expenditures	18,886,219

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the School District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (Days)</b>	<b>Standard &amp; Poor's rating</b>	<b>Percent</b>
External investment pool	\$ <u>1,614,056</u>	49	AAAm	<u>100 %</u>

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$637,655 of the School District's bank balance of \$737,655 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
<b>Capital assets, not being depreciated:</b>				
Land	\$ 722,563	\$ -	\$ -	\$ 722,563
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	41,335,930	13,297	3,400	41,345,827
Furniture and equipment	5,665,539	23,971	-	5,689,510
Vehicles	934,339	87,347	45,815	975,871
Total capital assets, being depreciated	47,935,808	124,615	49,215	48,011,208
<b>Less accumulated depreciation:</b>				
Buildings and improvements	10,713,657	776,417	3,400	11,486,674
Furniture and equipment	3,533,573	367,869	-	3,901,442
Vehicles	739,825	41,964	45,815	735,974
Total accumulated depreciation	14,987,055	1,186,250	49,215	16,124,090
Total capital assets, being depreciated, net	32,948,753	(1,061,635)	-	31,887,118
Capital assets, net	\$ <u>33,671,316</u>	\$ <u>(1,061,635)</u>	\$ <u>-</u>	\$ <u>32,609,681</u>

**Depreciation**

Depreciation expense has been charged to functions as follows:

Instruction	\$ 537,544
Support Services	214,052
Athletics	66,604
Food Service	17,762
Unallocated depreciation	350,288
	<u>\$ 1,186,250</u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 584,083	\$ -	\$ -	\$ 584,083
Less accumulated amortization	<u>99,046</u>	<u>32,208</u>	<u>-</u>	<u>131,254</u>
Bond issuance costs, net	<u>\$ 485,037</u>	<u>\$ (32,208)</u>	<u>\$ -</u>	<u>\$ 452,829</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2008 is as follows:

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 17,990
Other governmental funds	General Fund	<u>44,328</u>
		<u>\$ 62,318</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$4,940 to the Food Service Fund and \$200,000 to the Athletics Fund to finance operations.

**NOTE G— SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
State aid anticipation note				
2006/2007 4.4% due August 2007	\$ 1,300,000	\$ -	\$ 1,300,000	\$ -
2007/2008 3.68% due August 2008	<u>-</u>	<u>1,219,000</u>	<u>-</u>	<u>1,219,000</u>
	<u>\$ 1,300,000</u>	<u>\$ 1,219,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,219,000</u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, office equipment loan payable and Education Interconnection and Consortium Financing Agreement.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
<b>Governmental activities:</b>					
General obligation bonds	\$ 29,764,768	\$ -	\$ 1,202,440	\$ 28,562,328	\$ 1,274,850
Other obligations	4,748,643	394,996	25,081	5,118,558	12,693
Compensated absences	559,243	87,027	93,580	552,690	-
	<u>\$ 35,072,654</u>	<u>\$ 482,023</u>	<u>\$ 1,321,101</u>	<u>\$ 34,233,576</u>	<u>\$ 1,287,543</u>

In the previous schedule, the additions for other obligations includes \$183,100 of new draws and \$35,567 of accrued interest on the School Bond Loan Revolving Fund and \$176,329 of accrued interest on the School Bond Loan Fund.

General obligation bonds consist of the following:

2001 School Building and Site General Obligation

Bonds payable in annual installments ranging from \$430,000 to \$1,000,000 due May 2009 to 2019; plus interest ranging from 3.8% to 5.5% payable semi-annually

\$ 6,265,000

2005 Refunding General Obligation Bonds payable in annual installments ranging from \$360,000 to \$735,000 due May 2009 to 2023; plus interest ranging from 3% to 5% payable semi-annually

8,765,000

Plus issuance premium

50,834

Less deferred amount on refunding

(235,265)

2006 Refunding General Obligation Bonds payable in annual installments ranging from \$50,000 to \$740,000 due May 2016 to 2031; plus interest ranging from 4% to 4.375% payable semi-annually

9,190,000

Less issuance discount

(66,964)

Less deferred amount on refunding

(355,995)

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

General obligation bonds—Continued

2007 Refunding General Obligation Bonds payable in annual installments ranging from \$575,000 to \$655,000 due May 2012 to 2019; plus interest ranging from 4% to 5.5% payable semi-annually	\$ 4,755,000
Plus issuance premium	382,254
Less deferred amount on refunding	(292,040)
Durant obligations payable in annual installments ranging from \$9,850 to \$61,663 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>104,504</u>
Total bonded debt	28,562,328

Other obligations:

School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$760,632 is included at interest rates between 2.625% and 4.875%	4,099,776
School Loan Revolving Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$65,217 is included at interest rates between 4.385% and 5.049%	955,317
Education Interconnection and Consortium Financing Agreement payable in annual installments of \$12,693 due March 2009 to 2013	<u>63,465</u>
Total other obligations	5,118,558

Compensated absences	<u>552,690</u>
	\$ <u><u>34,233,576</u></u>

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt and Education Interconnection and Consortium Financing Agreement outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 1,287,543	\$ 1,273,089	\$ 2,560,632
2010	1,333,011	1,227,430	2,560,441
2011	1,383,503	1,179,359	2,562,862
2012	1,514,356	1,146,982	2,661,338
2013	1,529,556	1,063,705	2,593,261
2014-2018	8,405,000	4,175,760	12,580,760
2019-2023	7,770,000	2,204,350	9,974,350
2024-2028	3,700,000	959,225	4,659,225
2029-2033	2,220,000	194,250	2,414,250
	<u>\$ 29,142,969</u>	<u>\$ 13,424,150</u>	<u>\$ 42,567,119</u>

**NOTE I—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE I—EMPLOYEE BENEFITS—Continued**

***Employee Retirement System – Defined Benefit Plan—Continued***

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$1,217,000, \$1,180,000, and \$1,111,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**NOTE J—CONTINGENCIES**

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Montague Area Public Schools  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2008

**NOTE K—OTHER INFORMATION**

**Economic Dependence** – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 73 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

**NOTE L—SUBSEQUENT EVENT**

On August 20, 2008, the School District received the proceeds of a \$1,000,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 20, 2009 and bears interest at the rate of 1.7 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Montague Area Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund

For the year ended June 30, 2008

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
<b>REVENUES</b>				
Local sources	\$ 2,743,958	\$ 2,759,406	\$ 2,757,793	\$ (1,613)
State sources	8,413,410	8,476,396	8,497,047	20,651
Federal sources	427,328	486,969	445,988	(40,981)
Incoming transfers and other transactions	558,000	549,000	700,417	151,417
Total revenues	12,142,696	12,271,771	12,401,245	129,474
<b>EXPENDITURES</b>				
Instruction				
Basic programs	5,702,893	5,643,781	5,594,476	49,305
Added needs	2,428,312	2,408,609	2,333,088	75,521
Support services				
Pupil	603,097	583,438	577,213	6,225
Instructional staff	278,588	364,161	338,406	25,755
General administration	305,090	317,088	298,152	18,936
School administration	696,900	682,195	692,389	(10,194)
Business	323,534	313,334	296,948	16,386
Operations and maintenance	1,410,635	1,411,646	1,344,245	67,401
Pupil transportation services	814,495	886,095	830,255	55,840
Central	113,278	123,661	118,481	5,180
Community services	-	1,000	570	430
Outgoing transfers	225,000	225,000	204,940	20,060
Total expenditures	12,901,822	12,960,008	12,629,163	330,845
Excess (deficiency) of revenues over (under) expenditure:	\$ <u>(759,126)</u>	\$ <u>(688,237)</u>	(227,918)	\$ <u>460,319</u>
Fund balance at July 1, 2007			1,214,033	
Fund balance at June 30, 2008			\$ <u>986,115</u>	

Montague Area Public Schools  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2008

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 2, 2008

Board of Education  
Montague Area Public Schools  
Montague, Michigan

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated September 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Montague Area Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montague Area Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montague Area Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

## BRICKLEY DELONG


Board of Education  
September 2, 2008  
Page 2

### ***Compliance***

As part of obtaining reasonable assurance about whether Montague Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montague Area Public Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Montague Area Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 2, 2008

Board of Education  
Montague Area Public Schools  
Montague, Michigan

### ***Compliance***

We have audited the compliance of Montague Area Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its cluster of major federal programs for the year ended June 30, 2008. Montague Area Public Schools' cluster of major federal programs is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its cluster of major federal programs is the responsibility of Montague Area Public Schools' management. Our responsibility is to express an opinion on Montague Area Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montague Area Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montague Area Public Schools' compliance with those requirements.

In our opinion, Montague Area Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its cluster of major federal programs for the year ended June 30, 2008.

### ***Internal Control Over Compliance***

The management of Montague Area Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montague Area Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Montague Area Public Schools' internal control over compliance.

Board of Education  
September 2, 2008  
Page 2

***Internal Control Over Compliance—Continued***

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Parts B and C in the accompanying Schedule of Findings and Responses as Finding 1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness.

Montague Area Public Schools' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Montague Area Public Schools' response and, accordingly, we express no opinion on it.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated September 2, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue	Cash or payments in kind received	Expenditures (accrual basis)			Accrued (deferred) revenue
			July 1, 2007	(cash basis)	Prior year	Current year	Total	June 30, 2008
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I	84.010							
071530 0607		\$ 198,116	\$ 20,844	\$ 56,246	\$ 143,702	\$ 35,402	\$ 179,104	\$ -
081530 0708		246,179	-	145,469	-	177,778	177,778	32,309
		444,295	20,844	201,715	143,702	213,180	356,882	32,309
Service Provider Self Review	84.027A							
070440 0607		4,500	(609)	(609)	3,891	-	3,891	-
Title V	84.298							
080250 0708		1,772	-	1,772	-	1,772	1,772	-
Technology Literacy Challenge	84.318							
064290 0607		3,661	950	950	3,661	-	3,661	-
074290 0607		2,183	-	103	-	103	103	-
084290 0708		4,172	-	3,628	-	3,628	3,628	-
		10,016	950	4,681	3,661	3,731	7,392	-
Improving Teacher Quality	84.367							
060520 0607		20,766	14,368	14,368	20,766	-	20,766	-
070520 0607		78,565	2,701	6,927	54,866	4,226	59,092	-
080520 0708		77,396	-	62,814	-	77,396	77,396	14,582
		176,727	17,069	84,109	75,632	81,622	157,254	14,582
Total passed through Michigan Department of Education		637,310	38,254	291,668	226,886	300,305	527,191	46,891
Passed through Muskegon Area Intermediate School District								
PL 101-476 Flowthrough	84.027A							
070450 0607		124,318	22,534	22,534	124,318	-	124,318	-
070450 0708		3,430	-	3,430	-	3,430	3,430	-
080450 0708		128,872	-	101,186	-	128,872	128,872	27,686
		256,620	22,534	127,150	124,318	132,302	256,620	27,686
Passed through Muskegon Public Schools								
Title III	84.365A							
080580 0708		1,898	-	1,898	-	1,898	1,898	-
Total U.S. Department of Education		895,828	60,788	420,716	351,204	434,505	785,709	74,577

Montague Area Public Schools  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<b><i>U.S. Department of Agriculture</i></b>								
Passed through Michigan Department of Education								
National School Lunch and Breakfast								
Entitlement Commodities	10.550	\$ 31,730	\$ -	\$ 31,730	\$ -	\$ 31,730	\$ 31,730	\$ -
Bonus Commodities		1,714	-	1,714	-	1,714	1,714	-
		33,444	-	33,444	-	33,444	33,444	-
Child Nutrition Cluster								
071970 Lunch—Breakfast	10.553	7,627	-	7,627	-	7,627	7,627	-
081970 Lunch—Breakfast		68,231	-	68,231	-	68,231	68,231	-
		75,858	-	75,858	-	75,858	75,858	-
071950 All Lunches	10.555	3,967	-	3,967	-	3,967	3,967	-
081950 All Lunches		31,291	-	31,291	-	31,291	31,291	-
071960 Free and Reduced		19,050	-	19,050	-	19,050	19,050	-
081960 Free and Reduced		152,136	-	152,136	-	152,136	152,136	-
		206,444	-	206,444	-	206,444	206,444	-
071940 Special Milk	10.556	113	-	113	-	113	113	-
081940 Special Milk		1,196	-	1,196	-	1,196	1,196	-
		1,309	-	1,309	-	1,309	1,309	-
Total Child Nutrition Cluster		283,611	-	283,611	-	283,611	283,611	-
Total passed through Michigan Department of Education		317,055	-	317,055	-	317,055	317,055	-
Passed through County of Oceana								
School and Roads	10.665	2,067	-	2,067	-	2,067	2,067	-
Total U.S. Department of Agriculture		319,122	-	319,122	-	319,122	319,122	-
<b><i>U.S. Department of Health and Human Services</i></b>								
Passed through Muskegon Area Intermediate School District								
Medical Assistance Program Title XIX 393	93.778	9,416	-	9,416	-	9,416	9,416	-
TOTAL FEDERAL ASSISTANCE		\$ 1,224,366	\$ 60,788	\$ 749,254	\$ 351,204	\$ 763,043	\$ 1,114,247	\$ 74,577

The accompanying notes are an integral part of this schedule.

Montague Area Public Schools  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008

Governmental Funds financial statements

General Fund	\$ 445,988	
Other governmental funds (includes Food Service Fund)	<u>317,055</u>	\$ <u>763,043</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards	\$ <u><u>763,043</u></u>
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Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES**  
Year ended June 30, 2008

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Montague Area Public Schools.
2. **One (1)** significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This significant deficiency is not reported as a material weakness.
3. There were **no** instances of noncompliance material to the financial statements of Montague Area Public Schools as disclosed during the audit and as reported in Part B of this schedule.
4. **One (1)** significant deficiency disclosed during the audit of the cluster of major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Parts B and C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the cluster of major federal award programs for Montague Area Public Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a cluster of major programs was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553, 10.555 and 10.556

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Montague Area Public Schools was determined to be a low-risk auditee.

Montague Area Public Schools  
**SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED**  
Year ended June 30, 2008

**B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

**Fiscal 2008 Finding No. 1: Review Procedures for Applications for Free and Reduced Meals and for Verification Procedures**

*Criteria:* All free and reduced meal application determinations should be reviewed and verification procedures should be reviewed.

*Condition:* We noted that 3 of 25 applications selected for audit testing were not reviewed by the Food Service Director. We also noted that verification procedures performed by the Food Service Director are not reviewed.

*Cause:* One application was missed during the application review process. Two applications were submitted after the beginning of the school year and were not reviewed due to the School District's policy of not reviewing applications after the beginning of the school year.

*Effect:* Not determinable.

*Recommendation:* Applications for free and reduced meals and verification procedures should be reviewed by an appropriate official.

*School District Response:* Free and reduced applications that are received after the beginning of school will be reviewed by both the Food Service Director and one other staff member.

Once the Food Service Director has reviewed the Free and Reduced Applications chosen as part of the annual verification process, he will submit the documents to Central Office for further review and sign off.

**C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133**

**COMPLIANCE**

NONE

**SIGNIFICANT DEFICIENCIES**

See Finding No. 1 in Part B above.

## **CLIENT DOCUMENTS**

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 2, 2008

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated October 8, 2007.

### **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

#### **COMPLIANCE**

There were *no* findings in relation to the audit of financial statements.

#### **SIGNIFICANT DEFICIENCIES**

##### **Fiscal 2007 Finding No. 1: Journal Entry Review and Approval Procedures**

*Condition:* Currently, not all general ledger journal entries are being reviewed and approved.

*Recommendation:* A formal record should be kept of all journal entries, and all journal entries should be reviewed and approved by appropriate personnel.

*Current Status:* This recommendation was adopted in fiscal 2008. *No* similar finding was noted in the fiscal 2008 audit.

##### **Fiscal 2007 Finding No. 2: Child Nutrition Cluster - Eligibility**

*Condition:* Procedures for reviewing eligibility determinations are not documented. There were 32 applications selected for testing and none of those applications had documentation indicating they had been reviewed and approved.

*Recommendation:* The School District should require written documentation of the review and approval of child nutrition eligibility determination.

*Current Status:* See Fiscal 2008 Finding No. 1 for similar finding noted.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued**

**SIGNIFICANT DEFICIENCIES**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 3: Child Nutrition Cluster - Reporting**

*Condition:* Monthly claims for reimbursement and year end reports are not reviewed or approved by appropriate personnel for accuracy. There were 9 monthly claims for reimbursement and 1 year end report that were submitted without prior review or approval. The year end report and 4 of the 9 monthly claims for reimbursement were tested. Based on the results of our audit testing, there were a total of 2 free lunches under reported and 320 meals over reported for paid lunches.

*Recommendation:* The School District should implement procedures to require the review and approval of monthly claims for reimbursement and year end reports.

*Current Status:* This recommendation was adopted in fiscal 2008. **No** similar finding was noted in the fiscal 2008 audit.

**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

*U.S. Department of Agriculture*

**Fiscal 2007 Finding No. 4: Child Nutrition Cluster - Special Tests and provisions: Verification of Free and Reduced Price Applications.**

*Condition:* The School District performed focused sampling, but did not verify the correct number of applications required by focused sampling.


*Recommendation:* The School District should review its verification procedures and provide additional training for staff who perform verification to ensure the appropriate number of applications are selected for focused sampling.

*Current Status:* This recommendation was adopted in fiscal 2008. **No** similar finding was noted in the fiscal 2008 audit.

**SIGNIFICANT DEFICIENCIES**

See Findings No. 2 and No. 3 in Part B above.

Sincerely,



David L. Sipka  
Superintendent

## CORRECTIVE ACTION PLAN

September 2, 2008

Michigan Department of Education  
Lansing, Michigan

Montague Area Public Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

### B. FINDINGS—FINANCIAL STATEMENT AUDIT

#### COMPLIANCE

There were *no* findings in relation to the audit of financial statements.

#### SIGNIFICANT DEFICIENCIES

##### **Fiscal 2008 Finding No. 1: Review Procedures for Applications for Free and Reduced Meals and for Verification Procedures**

*Recommendation:* Application determinations for free and reduced meals and verification procedures should be reviewed by an appropriate official.

*Action Taken:* Free and reduced applications that are received after the beginning of school will be reviewed by both the Food Service Director and one other staff member.

Once the Food Service Director has reviewed the Free and Reduced Applications chosen as part of the annual verification process, he will submit the documents to Central Office for further review and sign off.

Michigan Department of Education  
September 2, 2008  
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**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

There were *no* findings in relation to the audit of major federal award programs.

**SIGNIFICANT DEFICIENCIES**

See Finding No. 1 in Part B.

If the Michigan Department of Education has questions regarding this plan, please call David L. Sipka at (231) 893-1515.

Sincerely,

A handwritten signature in black ink that reads "David L. Sipka". The signature is written in a cursive style with a small star-like mark above the 'i' in "Sipka".

David L. Sipka  
Superintendent

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 2, 2008

Board of Education and  
David L. Sipka, Superintendent  
Montague Area Public Schools  
Montague, Michigan

In planning and performing our audit of the financial statements of Montague Area Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Montague Area Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



## **SIGNIFICANT DEFICIENCY**

Recommendation 1: Free and reduced meal application determinations and verification procedures should be reviewed by an appropriate official.

During our audit, we noted that some free and reduced meal application determinations and verification procedures are not being reviewed or approved by an appropriate official.

The review and approval of free and reduced meal application determinations and verification procedures would reduce the risk that eligibility determination is made incorrectly and that the verification process is performed and reported properly.